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INVESTMENT SECURITIES

BY FINANCIER.

ALMOST every one appreciates the difficulty of accumulating money; a constantly increasing number are learning that the wise investment of funds after their acquisition is not an easy task. There is a growing inquiry for information regarding the best use to which to put funds, in order that not only may the repayment be assured, but also that the yield may be as large as is consonant with safety.

The United States Census Bureau estimates that the wealth of the United States increases about four billions of dollars a year; in other words, every time the sun sets, our wealth is about \$10,000,000 greater than it was at the close of the day before. The reinvestment of this enormous accretion, or at least of that part of the increase which is available for reinvestment, constitutes an enormous task and one in which more and more people are interested each year.

The simplest form of investment is a loan. The borrower agrees to return to the lender, after a certain period, the amount advanced, and, in addition, a specified sum called "interest," which represents to the borrower the value of the use of the money borrowed for the time agreed upon.

Nearly every form of investment, even under the complex development of modern economic conditions, if properly analyzed, resolves itself into a loan of some sort. If one deposits money in a savings-bank or trust company, he but loans the money to the bank; if he buys a mortgage, he loans to the owner of the mortgaged property, while if he buys a bond he becomes the creditor of a corporation.

This classification of investors as lenders neglects investments in real estate, in stocks or in business enterprises, because, when

one makes a purchase of this kind, he does so, not with the idea of receiving his principal back after a certain time, *plus* interest for its use, but he anticipates more particularly a profit from the venture. He anticipates that this profit will be more than would be the interest on his outlay. So he assumes a greater risk than he would have incurred had he desired an investment only.

It is the purpose of this article to consider the relative value of some of the more common forms of pure investment.

For the man who has a small sum of idle money which he wishes to use in such a way that it will bring him in some return, there is probably no better place for his funds than a savings-bank. Many people, however, have savings-bank deposits aggregating thousands of dollars each, and it is something of a question whether or not such individuals have made the wisest choice in placing their funds. Savings-banks are, as a class, conservatively managed, and therefore the risk attaching to a savings-bank deposit is not great. Savings-banks in New York, Massachusetts, Connecticut and some other States are especially noted for their strength. In New York, a savings-bank is a philanthropic institution. It has no capital stock and the depositors are entitled to the benefit of all the earnings. The trustees, or directors, serve without salary. Moreover, the character of the investments, in which the deposits may be placed, is carefully prescribed.

In many States, however, saving-banks are stock corporations and are organized primarily to make money for their owners. They are not restricted as to their investments. The owners, in order to pay dividends on the stock, and, at the same time, to allow an attractive rate on the savings deposits, occasionally make hazardous or speculative investments with the hope of obtaining large profits. Such ventures not infrequently end in disaster, with a resulting loss to the bank-depositors.

There are each year some instances of defalcations on the part of savings-bank officers or employees. While the aggregate amount of losses due to such peculations is small, the depositor, in entrusting his savings to the officials of the bank, always risks the possibility of a betrayal of the trust.

Savings-banks, if conservatively managed, cannot pay a high rate of interest, and the depositor—if he will take the trouble to investigate—will find, in many cases, that there are other suitable forms of investment, which, while offering equal or superior

security to that afforded by the bank, at the same time yield a better return than the interest paid by the bank.

Loans, secured by real-estate mortgages, pay, as a class, higher rates than savings-banks deposits, but this form of investment offers certain difficulties to the average investor. Before the lender can be assured as to the safety of the loan, he must know all about the property, he must be able to appraise its value and he should also know something about the character of the borrower. Even if the value of the property offers adequate security, the investor does not wish to go through the tedious and technical process of foreclosure in order to collect his loan. Mortgage loans are not readily marketable, nor are they easily divisible, and therefore a lender on a mortgage, if he wishes to use a part or all of his money prior to the maturity of the loan, runs the risk of encountering much difficulty in trying to dispose of his security. A mortgage loan cannot readily be used as collateral should the owner desire to borrow on it. The lack of convertibility or "marketability" is one of the chief objections to mortgages as investments. Their lack of availability is another. It is not easy, ordinarily, to obtain a mortgage for just the amount you may wish to invest, running just the length of time you desire, and, at the same time, secured by a piece of property such as you care to loan upon.

Companies have been organized during the past few years whose business it is to make large loans on mortgages, and to sell small participations, of \$100, \$500 or \$1,000, in the larger loans. Some companies add their guarantee to the loans when they sell them. The interposition of such a company between the borrower and the lender, if the company is honestly and wisely managed, is of great assistance to the latter. For its services the company, of course, charges a fee in one form or another, and this reduces the yield of the mortgage loan correspondingly. The lender is compensated, however, by the additional security and the more convenient form in which the loan is available.

Investment bonds form another and most important outlet for surplus funds. In many ways bonds constitute the most satisfactory investment available for the ordinary man. They are issued in convenient denominations, they are readily convertible into cash, and, if properly selected, the payment of the principal and interest is as sure as any future events well can be.

The convenience with which the interest and principal of a bond are collected offers a further advantage. If the bond is registered in the name of the owner, the interest is mailed to him by check, periodically, usually twice a year. If he has a coupon bond, the semi-annual interest coupons may be collected through any bank. The principal, likewise, may be collected through a bank or by presenting the bond at the agency of the issuing corporation.

The usual denomination of a bond is \$1,000. Some bonds are issued in \$500 pieces, and a few of \$100 each are obtainable. It is probable that more and more of the smaller bonds will be issued in the future, as the small investor becomes better acquainted with the advantages of bond-purchasing.

In France, which is known as a nation of investors, and where the custom of bond-buying is more general than in any other country, the usual denomination of securities is 500 francs, the approximate equivalent of \$100.

With the bewildering assortment of railroad bonds, government and municipal bonds, public corporation bonds and industrial bonds available in the markets, the investor, even if predisposed to purchase a security of this class, naturally finds considerable difficulty in making a selection.

Generally speaking, there is no safer security than a first-mortgage bond of an established railroad which serves a well-settled section of the country.

Railroad bonds are better than the bonds of an industrial corporation, for instance, because the earnings of a railroad are more stable, more even, in good times and bad, than are the earnings of almost any other form of industry. If a railroad's earnings are fairly well maintained, even though the country in general may be suffering from a period of business adversity, of course the road will be able to continue the payment of its bond interest. Railroad earnings are adversely affected during periods of business depression, but to a less extent than other lines of business; and, if the road is conservatively bonded, the payment of the interest on its obligations is not jeopardized.

The steadiness of railroad earnings is due to the economic necessity of transportation under all conditions. To realize this fact, imagine what would happen were all of our railroads to stop running for a single week. Our cities would be devastated as by a famine. If it were winter, thousands would freeze to death. Life

for those who survived would be revolutionized. It is not necessary to pursue this line of thought further, because such a condition will never be experienced.

The transportation industry differs from other industries in the diversity of its business. It is not dependent upon the demand for any one thing. During business panics, some industries languish, some almost entirely suspend operations, but this is never true of all lines of business. However much one industry may be reduced or even if all are depressed, what business remains is carried on only with the aid of the railroads and by supplying them traffic.

A first mortgage on a railroad, serving a well-populated territory, the business of which consists of supplying a necessity, offers unquestionable security for a loan, and for that reason the bonds of such a corporation rank high among investment securities.

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